Legacy

Annual Report 1988

Legacy Petroleum Ltd.

CORPORATE PROFILE

Date Incorporated
October 14, 1970

Incorporated In
Province of Alberta

Date Continued
February 11, 1983

Predecessor Companies
Francis Creek Mines Ltd. (NPL)
Oct. 14, 1970 - Jun.14, 1971

Frances Creek Mines Ltd. (NPL)
Jun. 14, 1971 - Sept. 9, 1975

Cal-West Petroleums Ltd. (NPL)
Sept. 9, 1975 - May 24, 1985

Head Office
#530, 777 - 8th Avenue S.W.
Calgary, Alberta T2P 3R5
(403) 264-4254

Wholly-Owned Subsidiaries
Legacy Oil and Gas Ltd.
Legacy Oil and Gas Inc.
Benchlands Oil and Gas Inc.
Harkor Developments Ltd.

Directors
Murray F. Craig
William Y. Kennedy, LL.B
Carol A. Mossfeldt
A. Kenneth Mossfeldt

Officers
A. Kenneth Mossfeldt
President

Carol A. Mossfeldt
Vice-President, Administration

Kathy I. Pawluk, B.A., LL.B.
Vice-President, Land/Legal

Transfer Agent and Registrar
The Canada Trust Company*
505 - 3rd Street S.W.
Calgary, Alberta T2P 3Y8

Auditor
M. Jane McKinnon, C.A., B. Comm.
Calgary, Alberta

Main Banking Connection
Treasury Branches of Alberta
Calgary, Alberta

Other Banking Connections
Northwest Trust Company
Calgary, Alberta
First State Bank of Shelby
Shelby, Montana USA

Stock Exchange Affiliation
Alberta Stock Exchange
Calgary, Alberta

Year End
May 31

Trading Symbol
LCY-A

**Share Type Capitalization/
Issued and Outstanding**
Class "A" Voting Common Shares
unlimited - 3,442,958

Class "B" Non-Voting Common Shares
unlimited - nil

Preferred Shares - 500,000
250 Series #1 - $1,000 per share
(redeemed 160 by May 31, 1988)
22,000 Series #2 - $1 per share
(redeemed 10,000 by May 31, 1988)

Printed by
The Copy Cellar

*Effective September 30, 1988 the stock, bond and transfer operations of Canada Trust were acquired by Montreal Trust.

PRESIDENT'S MESSAGE

On behalf of the Board of Directors, I am pleased to present to you the Annual Report including the Consolidated Audited Financial Statements for the year ended May 31, 1988. As you will note, overall the Company recorded a modest net loss of $135,358 ($70,500 with depletion and depreciation added back in), compared to a loss of $515,606 for the previous year.

As disclosed in the report from the auditor, revenue from oil and gas sales remained static during the past year, although volume was up slightly. Your Company had acquired producing properties at Castor that would have made a substantial impact on gas sales; however, due to legal litigation these properties were only on production for two months. As a result, the anticipated increase in cash flow from this prospect did not materialize.

During the year, operating expenses increased significantly due to the fact that your Company had accepted operatorship of the Castor properties which included ten producing wells and a sizeable gas plant. As operator we undertook substantial additional expense. When operations were shut-in after only two months production, your Company took immediate steps to materially reduce its field operating costs, and has continued this action through the first quarter of fiscal 1989.

On a more positive note, in reviewing the Consolidated Balance Sheet, we are pleased to report that capital assets increased slightly before depletion and depreciation, while the current liabilities were reduced significantly. Your Company did acquire additional long-term bank financing from its prime lender for the purposes of developing cash flow from its asset base. While not obvious from the financial data presented, your Company has amassed one of the largest contiguous lease spreads in central east Alberta -- the majority of which is believed to be commercially hydrocarbon bearing. Interest in this area continues to remain high, with the result that we have been able to farmout a number of properties on very equitable arrangements.

The activities of the past year, explained in more detail elsewhere in this report, in retrospect may not produce the desired results; however, we believe that during this time of extremely volatile prices and supply demands we must take whatever steps we feel necessary to enhance both the short and long term viability.

It is becoming more and more evident that possibly the only way to end the problems of the energy industry in North America is to reduce the impact of third world countries -- and more particularly, the OPEC cartel. It would appear from recent comments of the two U. S. presidential candidates that perhaps we are moving towards a North American pricing system, which would in all probability spill over into Canada. The Canadian energy industry needs a long term plan, not short term handouts, and we can only hope that in time these needs will be realized and acted upon by those who control the destiny of North America.

A. Kenneth Mossfeldt
President
on behalf of the Board of Directors

October 4, 1988

FUTURE POTENTIAL HIGHLIGHTS

We are pleased to report that the past year has been an exciting and active one for your Company. While many of these activities have not resulted in significant improvement to cash flow, they are consistent with management's objective to build a strong asset base which will reap future benefits. We are facing an era where the "fast buck" is gone and it is our strong belief that a solid base will reap the largest future rewards.

While many companies are reducing their inventory of oil and gas properties, your Company continues to add productive properties to its inventory at a cost within its expenditure parameters.

During the past year these acquisitions have included the purchase of an oil battery, three producing oilwells and additional potentially productive acreage at Viking-Kinsella, Alberta.

As well, your Company continues to significantly increase its interest position in the Castor prospect.

In its exploration program, one well was drilled as a potential gaswell; a second well already drilled and tied into its Halkirk gas producing facilites was perforated in a previously unproduced zone; and a potential dual zone gaswell, acquired under a farmin agreement with Amoco Canada Petroleum Ltd., formerly Dome Petroleum Ltd. and partners was tied into the Halkirk gas producing facilities and placed on production from the Basal Quartz zone in mid-September 1988. This well is also capable of commercial gas production from the Viking zone.

Additional drilling was undertaken by other companies on the Steelman-Weir Hill oil producing properties in Saskatchewan during the year.

Perhaps the biggest single question facing your Company and the many junior gas producers, is where the gas industry in Canada is going. Western Gas Marketing, arm of TransCanada Pipelines Ltd., has attempted to organize natural gas producers into operating under a new contract agreement. However, many Companies such as yours have declined to execute new contracts until such time as all potential avenues of natural gas sales have been evaluated.

We believe that it is in the best interest of our Shareholders to sell as much natural gas as we can produce at the best price that can be obtained in today's market and to continue to develop reserves if future viability is to be assured. This appears to be somewhat in conflict with the current trend. However, your Company is in the process of negotiating its own natural gas contracts.

The balance of 1988 and the first half of 1989 is expected to see your Company tie in additional gas production through acquisition and farmins. Only limited drilling is anticipated, unless there is a sharp increase in the price for petroleum and/or natural gas.

CANADA

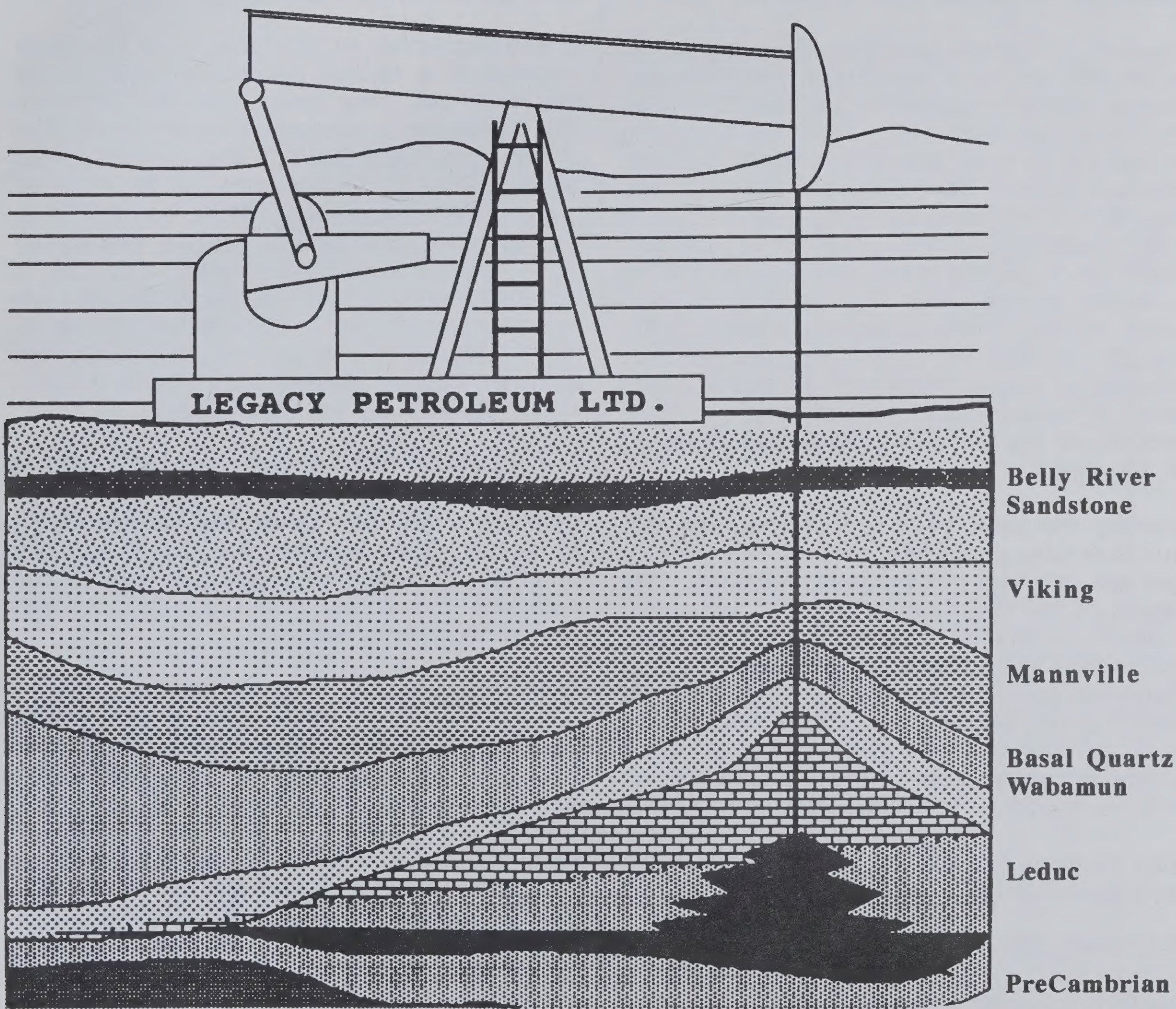
CASTOR, Alberta

As noted in last year's annual report, your Company originally purchased varying interests to a maximum of 47.6% in a gas plant, gas wells and some twenty-nine sections of adjacent acreage. The acquisitions came with certain liabilities which resulted in your Company spear-heading litigation against the previous operator of these properties.

It was anticipated that the liabilites would be cleared up prior to the first of this year; however, certain liabilities still exist and your Company continues to work towards resolving them and placing the properties on production. While the Castor properties went on production February 1, 1988 they had to be shut-in on March 31, 1988 when arrangements with TransCanada Pipelines unknown to your Company, the operator, resulted in the gas purchaser retaining three-quarters of the revenue from production, which formed part of the liability of the previous operator currently under litigation.

To this end, certain funds have been set aside and it has been conceded that these funds to which the largest portion of the liability relates, were held in trust by the previous operator and as such will be forthcoming in settlement of present monies owed against the properties. At this point the movement of these funds through the financial records of the previous operator is under review.

PRODUCING & POSSIBLE PRODUCING ZONES OF NEW ACQUISITIONS



Zones of CanOxy purchase:	**Belly River Sandstone to PreCambrian**
Zones of NCO Purchase:	**Viking to PreCambrian**
Zones of PanCanadian Farmout:	**Viking to top of Wabamun**
Zones of Erehwon Farmout:	**Mannville to top of PreCambrian**

As of the date of this report, the properties continue to be shut-in, but discussions are on-going with both TransCanada Pipelines and the Receiver/Manager for the previous operator. It is hoped that a successful conclusion to this matter will be reached prior to year end 1989.

However, during the year, your Company moved to acquire additional interests in the properties from McClocklin Exploration Ltd. and Canadian Occidental Petroleum Ltd., as well as increasing its interest in a number of previously acquired leases at Halkirk. The new Castor area interests, include working interests -- thereby increasing your Company's total interest in certain properties to slightly more than 60%; as well as a number of gross overriding royalties, of which some are convertible to working interests after payout. In addition, your Company acquired interests in one and one-half sections in which they previously held no interest. New acquisitions are graphically highlighted elsewhere in this report.

During the past year, your Company did successfully perforate one of the Castor gaswells in a new gas producing formation. The results of this operation indicate that the well is capable of flowing at significantly increased rates from the previouse perforated zone. However, due to the fact that the properties have been shut-in since the well was perforated, it is not possible at this time to make a conclusive evaluation of the potential of this well. In addition, one well was abandoned.

Your Company's lease play in the Castor-Halkirk area is highlighted in red on the adjacent map.

HALKIRK, Alberta

During the past year limited activity was undertaken on the Halkirk properties. Your Company elected to exchange its Section 11-39-16W4 for Section 14-39-16W4 due to the fact that two unsuccessful wells had been drilled to date on Section 11. Section 14 had a gas well drilled previously by Resman Oil & Gas Ltd., which was abandoned. Your Company proceeded to open up a new zone in the well which is tied to its Halkirk gas producing facilities. The new zone indicated Viking gas potential and is waiting to be fraced and placed on production. Your Company has 52.78% working interest before payout and 29.6875% working interest after payout.

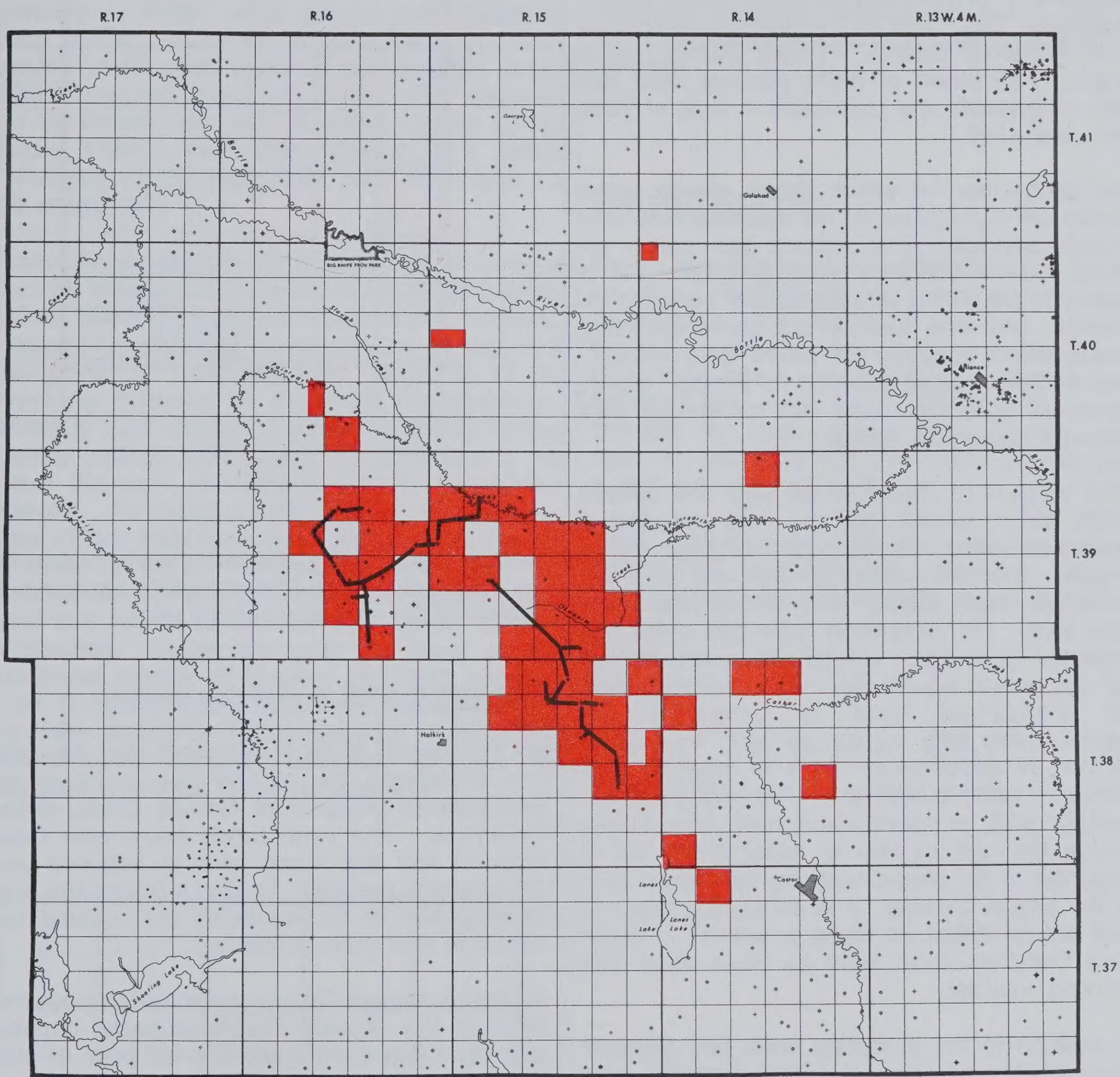
Also during the year your Company participated in the drilling of a well in 15-3-40-16W4. This Viking test is presently standing shut-in waiting on further evaluation. Your Company has 5% working interest before payout and 36.25% working interest after payout.

In mid-September of this year, your Company negotiated a farmin agreement with Dome Petroleum Ltd., now Amoco Canada Petroleum Ltd., to acquire a substantial working interest in a dual zone, Basal Quartz/Viking gaswell at Red Willow, Alberta. Under terms of the farmout this well, drilled in the late 1970's, was tied in by Legacy and its joint venture partners and placed on production in mid-September. The well is currently producing from the Basal Quartz zone at a rate of just over one million per day on an interruptible sales contract. Your Company has a 72.5% working interest before payout and a 43.5% working interest after payout.

The addition of the new gas producer in 6-26-39-16W4 could substanitally increase your Company's cash flow during the balance of the fiscal year 1989. However, it is difficult to make predictions related to cash flow due to the volatility of markets and the ability of gas carriers to interrupt supplies.

Other encouraging news in this area centers around the interest of PanCanadian Petroleum Ltd. and Erehwon Resources Ltd. in your Company's lease spread. PanCanadian, earlier this summer under farmout, drilled a test well in Section 18-39-15W4 which was abandoned. However, the Company has entered into an agreement to drill a second test well in the east half or southwest quarter of Section 24-39-16W4 this fall. As well, PanCanadian has an option for a third well in the northwest quarter of Section 24-39-16W4 and a fourth well in Section 30-39-15W4. The Legacy-headed joint venture will be in an overriding position until payout, at which time it will have the option to convert to a 50% working interest.

The recently concluded farmin agreement with Erehwon involves a seismic option in Section 3-40-16W4, the east half of Section 9-40-16W4 and Section 27-39-16W4 with an option to drill. Should Erehwon exercise its option on any or all of the above acreage your Company-headed joint ventures would be in an overriding royalty position until payout, at which time it could elect to convert to a 40% working interest.



LEGEND

- LEGACY INTEREST LEASES
- LEGACY OPERATED GAS PLANT
- GAS GATHERING FACILITIES

LEGACY PETROLEUM LTD.

RED WILLOW AREA

GASWELL
OILWELL
ABANDONED

Scale: 1 100,000 | Date JUNE 1, 1988 | By

VIKING-KINSELLA, Alberta

As of June 1, 1988 your Company concluded the purchase of oil production and other potentially productive acreage from North Canadian Oils Limited for $92,500 worth of First Preferred Shares. These shares pay a quarterly dividend of eight percent, and are both redeemable and retractable in June of 1989 and June 1990.

The properties for which these shares were issued are highlighted on the adjacent map and include petroleum and natural gas leases on which there are three producing oilwells and a battery in the Viking-Kinsella field of central east Alberta. As well, several additional offsetting leases were acquired for future development. One of these leases reached its primary expiry; however, your Company has continued this lease for a one year period.

With regard to the oilwells, two are owned 100% before payout, and the third and related battery is owned 50% by your Company, before payout. It is not anticipated that any of these wells will reach payout prior to the next fiscal year end. Oil production from this battery is expected to average around twenty-two barrels per day, which will increase the Company's total oil production from all properties to approximately forty barrels per day. In addition to the oil production, there is solution gas produced which is also sold. The Viking-Kinsella battery was on production only two weeks during the first quarter of fiscal 1989, but is expected to be placed back on production prior to the end of October. It is anticipated that one well will be drilled on these properties in which your Company could have as much as a 50% working interest.

In addition to the producing wells and adjacent undeveloped acreage at Viking-Kinsella, your Company also purchased in the package some additional acreage in the Castor/Halkirk area. Most notable of the acquisitions is the purchase of the gross overriding royalty on Section 3-40-16 W4M on which your Company headed the joint venture drilling of 15-3. This well indicated commercial gas potential from the Viking zone and is currently waiting on further evaluation.

At the time the initial agreement to purchase the Viking-Kinsella oil production was made, the price of oil was substantially higher than it is at the time of writing this report. It is hoped that the price will increase in the near future; however, Management is of the opinion that the salvage value of the equipment contained in the purchase from North Canadian Oils Limited is in excess of the original purchase price.

GRANITE CREEK, British Columbia

As announced at fiscal year end May 31, 1987 the Company concluded the sale of its gold/platinum prospect at Granite Creek, British Columbia. The total funds have now been received and said funds used to enhance your Company's position in the exploration and development of its petroleum and natural gas assets in east central Alberta.

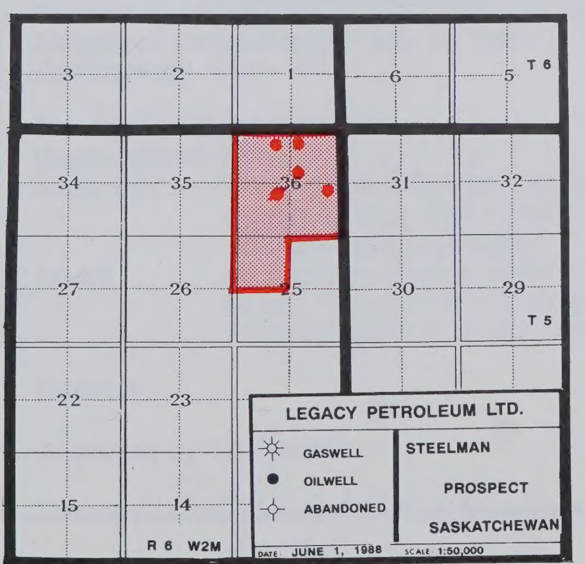
Inasmuch as your Company was not in a position to mine the Granite Creek property, coupled with the sharp decline in the world price of gold, it would appear that the sale of the mining prospect for cash was a prudent management decision.

STEELMAN, Saskatchewan

Interest in the Steelman oil producing area of southeastern Saskatchewan, highlighted on this page, continued throughout fiscal 1988. As previously announced, your Company continues its policy of retaining its interest in these properties through farmout, thereby remaining in an overriding royalty position until payout.

During the year Macedon Resources Ltd. drilled a third test in 13-36-5-6W2. This well was successfully completed and placed on production January 1, 1988. After payout your Company may convert to 6.25% working interest. With regard to the wells operated by Macedon, 5-36-5-6W2 reached payout in fiscal 1987; however, 11-36-5-6W2 has not reached payout as of fiscal 1988. Your Company is in a gross overriding royalty position in both 11-36 and 13-36 at this time.

Coho Resources Ltd. also negotiated a farmout for the drilling of a test well in 15-36-5-6W2. While this well indicated commercial success, completion problems have resulted in the well being shut-in. Your Company farmed its 12.5% working interest to TransOil Corporation, whereby your Company is in a gross overriding royalty position until payout at which time it will have the right to convert to a 4.5% working interest. As noted on the map on this page, a total of five wells have been drilled in Section 36-5-6W2 to date. Of these, three are on production, one is a potential water disposal well and the fourth is shut-in waiting on further evaluation. During the year the lease on the northeast quarter of Section 25-5-6W2 expired. Your Company joined with Argyll Resources Ltd. to make application for continuance of this lease based on surrounding production. To date, this application has not been concluded.



It is anticipated that additional drilling may be undertaken during the fiscal year ended May 31, 1989; however, your Company will continue to farmout, thereby freeing up funds for the development of its operated east central Alberta acreage.

UNITED STATES

During the past year there has been no drilling on your Company's royalty acreage in the state of Montana. The downturn in overall activity in the U.S. continued through the past fiscal year, and while there are indications that a new president may result in a new look at the energy industry for that country, your Management does not anticipate any significant changes prior to the end of fiscal 1989.

Your Company continues its quest for a suitor for its U.S. subsidiaries; however, to date efforts have failed to meet with any success.

M. Jane McKinnon
Chartered Accountant

502 HIGHSTREET HOUSE
933 - 17th AVENUE S.W.
CALGARY, ALBERTA T2T 5R6

TELEPHONE (403) 244-2840

AUDITOR'S REPORT

To the Shareholders of
Legacy Petroleum Ltd.

I have examined the consolidated balance sheet of Legacy Petroleum Ltd. as at May 31, 1988 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opionion, these consolidated financial statements present fairly the financial position of the Company as at May 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

September 28, 1988
Calgary, Alberta

M. Jane McKinnon
Chartered Accountant

CONSOLIDATED BALANCE SHEET
May 31, 1988

	1988	1987
ASSETS		
Current Assets		
Cash	$ - - -	$ 60,707
Accounts Receivable	64,365	202,896
Prepaid Expenses	10,280	8,770
Current portion of notes receivable (Note 2)	2,125	2,125
	76,770	274,498
Notes Receivable (Note 2)	513,644	515,769
Capital Assets (Note 3)		
Petroleum and natural gas properties	830,485	774,857
Plant and wellsite equipment	128,607	117,813
Automotive	17,538	3,650
Office Equipment	33,664	25,055
	1,010,294	921,375
Less: Accumulated depreciation and depletion	166,440	101,917
	843,854	819,458
	$ 1,434,268	$ 1,609,725
LIABILITIES		
Current Liabilities		
Bank Indebtedness (Note 4)	$ 34,476	$ - - -
Accounts payable and accrued liabilities	101,323	194,962
Salary payable	29,004	4,637
Due to shareholders (Note 5)	3,907	51,407
Current portion of long-term debt (Note 7)	103,083	90,307
	271,793	341,313
Advance from Landlord on Long-term Lease	6,375	9,375
Bonus payable to Officer and Director		
Due December 31, 1995	391,000	391,000
Promissory Notes Payable to Officer and Director (Note 6)	210,784	210,784
Long-term Debt (Note 7)	218,324	147,103
Contingency (Note 12)		
SHAREHOLDER'S EQUITY		
Capital Stock (Note 8)		
Authorized - Unlimited Class A voting common shares		
Unlimited Class B non-voting common shares		
500,000 Preferred Shares		
Issued - 90 Preferred Shares Series #1 (1987 - 170)	90,000	170,000
22,000 Preferred Shares Series #2 (1987 - 0)	22,000	- - -
3,442,958 Class A Shares (1987 - 3,422,979)	3,443,069	3,423,089
	3,555,069	3,593,089
DEFICIT	(3,219,077)	(3,082,939)
	335,992	510,150
Approved by the Board:	$ 1,434,268	$ 1,609,725

Director: B Massfeit

Director: M. F. Onarg

CONSOLIDATED STATEMENT OF LOSS

Year Ended May 31, 1988	1988	1987
Revenue		
Oil sales	$ 33,353	$ 24,827
Gas sales	228,573	227,316
Other	52,422	46,798
	314,348	298,941
Less: Royalties	28,841	20,141
	285,507	278,800
Expenses		
Operating	170,296	122,964
Interest on long-term debt	32,861	18,574
General and administrative	152,850	111,188
Depreciation and depletion	64,858	66,607
	420,865	319,333
Loss from Operations	(135,358)	(40,533)
Oil and gas properties surrendered	- - -	3,466
Loss before Extraordinary Items	(135,358)	(43,999)
Extraordinary Items		
Excess of cost of mining lease over disposal	- - -	(471,607)
Net Loss for the Year	$ (135,358)	$ (515,606)
Basic Earnings (Loss) per common share (Note 8)		
Before extraordinary items	$ (0.03)	$ (0.02)
Extraordinary items	- - -	(0.18)
Including extraordinary items	$ (0.03)	$ (0.20)

CONSOLIDATED STATEMENT OF DEFICIT

Year Ended May 31, 1988	1988	1987
Deficit, Beginning of Year	$ (3,082,939)	$ (2,547,333)
Net Loss for the Year	(135,358)	(515,606)
	(3,218,297)	(3,062,939)
Cost below average issue price of common shares purchased and cancelled (Note 8 (a))	10,040	- - -
Dividends on Preferred Shares	(10,820)	(20,000)
Deficit, End of Year	$ (3,219,077)	$ (3,082,939)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended May 31, 1988

	1988	1987
Operations		
Net Loss	$ (135,358)	$ (515,606)
Add		
Depreciation and depletion	64,858	66,607
Capital assets surrendered		
- Petroleum and natural gas properties	- - -	3,466
Excess of cost of mining lease over disposal	- - -	471,607
Loss (Gain) on sale of capital assets	(162)	864
	(70,662)	26,938
Financing		
Preferred shares issued for petroleum and natural gas properties	32,000	- - -
Common shares issued for petroleum and natural gas properties	32,480	191,498
Common shares issued in settlement of debt	- - -	214,037
Common shares issued	- - -	102,700
Proceeds on sale of mining lease	- - -	120,000
Proceeds on sale of capital assets	114,180	521,800
Proceeds on note receivable	2,125	51,387
Proceeds on long-term debt	116,466	182,366
	226,589	1,410,726
Redemption of Preferred shares	(90,000)	(80,000)
Repayment of long-term debt	(45,245)	(41,843)
Dividend on Preferred shares	(10,820)	(20,000)
Common Shares returned to Treasury	(3,460)	- - -
	77,064	1,268,883
Change in working capital other than cash	33,025	(99,267)
	110,089	1,169,616
Investing		
Additions to capital assets		
Petroleum and natural gas properties	(169,807)	(969,079)
Production equipment	(10,794)	(117,813)
Automotive and other equipment	(24,671)	(23,804)
	(205,272)	(1,110,696)
Increase (Decrease) in Cash	(95,183)	58,920
Cash, beginning of year	60,707	1,787
Cash (Indebtedness), end of year	$ (34,476)	$ 60,707

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended May 31, 1988

1. SUMMARY OF ACCOUNTING POLICIES

The following accounting principles and practices are set forth to facilitate the understanding of data presented in the financial statements:

(a) *Principles of Consolidation*

The activities of the Company and its wholly-owned subsidiaries, Harkor Developments Ltd. and Legacy Oil and Gas. Ltd. and its wholly-owned United States subsidiaries, Legacy Oil and Gas Inc. and Benchlands Oil and Gas Inc. are included in these financial statements.

The acquisitions of subsidiary companies have been accounted for by the purchase method, and accordingly, earnings or losses since the dates of acquisition are included in the consolidated statement of loss and deficit.

(b) *Capital Assets*

i) *Petroleum and Natural Gas Properties*

The Company follows the full cost method of accounting for oil and gas operations whereby all costs related to exploration for and development of oil and gas reserves are capitalized. Costs capitalized include those related to acquisition of petroleum and natural gas rights, geological and geophysical expenses, carrying costs on non-producing property, drilling of wells and applicable overhead expenses. These capitalized costs are accumulated in separate geographically located cost centers for each country in which the Company operates, at present Canada and the United States. All such costs are depleted on the unit of production method based on estimated proven reserves of oil and gas.

The Company carries its oil and gas properties at the lower of costs and the estimated present value of future net revenues from production of the underlying reserves.

Substantially all of the Company's exploration, development and production activities related to oil and gas are conducted jointly with others; accordingly, the accounts reflect only the Company's proportionate interest in such activities.

ii) *Other*

Automotive and other equipment are depreciated using the declining balance method at the following rates per annum:

Automotive	30%
Office equipment	20%
Plant and wellsite equipment	20%

(c) *Foreign Currency Translation*

The foreign subsidiaries accounts have been translated into Canadian dollars at the rate in effect at the balance sheet date for monetary assets and liabilities. Non-monetary assets and liabilities are translated at applicable historical rates. Revenue and expense items are translated at the average rate of exchange for the year.

(d) ***Advance from Landlord on Long-term Lease***

This advance is being applied against monthly rent of office premises, over the term of the lease.

2. NOTES RECEIVABLE

	1988	1987
Notes receivable due December 31, 1995	$ 391,000	$ 391,000
Notes receivable due October 1990, repayable in annual installments of $1,525 to May 31, 1990 with the balance of $94,751 due; $68,181 July 1, 1990 and $26,570 October 1990.	97,800	99,325
Notes receivable due December 1995, repayable in annual installments of $600 to May 31, 1994 with the balance of $23,368 due; $11,668 June 1994 and $11,700 December 1995.	26,969	27,569
	515,769	517,894
Current Portion	2,125	2,125
	$ 513,644	$ 515,769

The notes receivable are non-interest bearing and are due from present and former officers and directors of the Company.

3. CAPITAL ASSETS

	1988 Cost	1988 Accumulated Depletion and Depreciation	1988 Net Book Value	1987 Net Book Value
Canadian petroleum and natural gas properties	$ 830,485	$ 105,928	$ 724,557	$ 707,349
Automotive	17,538	3,942	13,596	3,236
Office equipment	33,664	14,798	18,866	14,622
Plant and wellsite equipment	128,607	41,772	86,835	94,251
	$1,010,294	$ 166,440	$ 843,854	$ 819,458

4. BANK INDEBTEDNESS

Bank indebtedness consists of excess of cheques issued over deposits of $34,476. At May 31, 1988 the Company had obtained additional bank financing consisting of a $75,000 revolving operating loan to cover this overdraft.

5. DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured, are either non-interest bearing or bear interest at a rate of 15% and are due on demand.

6. PROMISSORY NOTES PAYABLE TO OFFICER AND DIRECTOR

	1988	1987
Promissory note, payable to A.K. Mossfeldt due April 1, 1995	$ 39,250	$ 39,250
Promissory note, payable to A.K. Mossfeldt due April 1, 1995	171,534	171,534
	$ 210,784	$ 210,784

7. LONG-TERM DEBT

	1988	1987
U.S. Bank loan (U.S. $50,761) bearing interest at 12.75% per annum due September 27, 1988 secured by assets of the President of the Company.	$ 66,497	$ 75,547
Bank Loan bearing interest at prime plus 2.50%, repayable in monthly installments of $500 principal and interest due July 1989.	7,035	11,863
Finance contract bearing interest at 17.50% per annum repayable in monthly installments of $349 principal and interest, due October 24, 1992. Secured by automotive equipment.	14,270	- - -
Alberta Small Business Loan bearing interest at 9.00% per annum repayable in monthly installments of $1,900 principal and interest, due May 15, 1997.	139,443	150,000
Bank loan bearing interest at prime plus 1.50%, repayable in monthly installments of $2,200 principal and interest due December 31, 1992.	94,162	- - -
	321,407	237,410
Less current portion	103,083	90,307
	$ 218,324	$ 147,103

The following security has been pledged:

(a) General assignment of book debts.
(b) Continuing debenture to $250,000 at prime + 2.00%, fixed on certain gas properties.
(c) Specific assignment of TransCanada Pipelines Gas contract.

Repayment of long-term debt over the next five fiscal years will be as follows:

1989	$103,083
1990	35,760
1991	37,477
1992	41,168
1993	32,566
Subsequent	71,353
	$321,407

8. CAPITAL STOCK

Issued:

(a) ***Class A Voting Shares***

	1988	
	Number of Shares	Stated Value
Balance, beginning of year	$ 3,422,978	$ 3,423,089
Issue of shares to acquire petroleum and natural gas properties	33,480	33,480
Purchased for cash and cancelled	(13,500)	(13,500)
	$ 3,442,958	$ 3,443,069

The excess of the average carrying value of common shares at the purchase date over the purchase consideration has been charged to retained earnings (deficit).

(b) ***First Preferred Shares - Series #1***

	1988	
	Number of Shares	Stated Value
Balance, beginning of year	170	$170,000
Issued	- - -	- - -
Redeemed	(80)	(80,000)
	90	$ 90,000

The shares have been designated as follows:
- i) 8% cumulative redeemable, retractable, convertible
- ii) the shares are retractable as follows:
  90 shares on November 1, 1988.
- iii) in the event of default, provisions exist to convert the shares to common trading shares.

(c) ***First Preferred Series - Series #2***

	1988	
	Number of Shares	Stated Value
Balance, beginning of year	- - -	- - -
Issued	32,000	$ 32,000
Redeemed	(10,000)	(10,000)
	22,000	$ 22,000

The shares have been designated as follows:
- i) 8% cumulative redeemable, retractable, convertible
- ii) the shares are retractable as follows:
  10,000 shares on October 1, 1988
  12,000 shares on October 1, 1989.
- iii) in the event of default, provisions exist to convert the shares to common trading shares.

(d) ***Stock Options***

The company has entered into an option agreement with certain directors and employees whereby 550,000 Class A common shares were reserved for issue at an exercise price of $0.11 per share. The agreement expires April 30, 1996.

9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration provided in the books to directors and senior officers was $77,000 of which $29,000 remains unpaid.

10. INCOME TAXES

The Company has accumulated losses for Canadian income tax purposes of $470,255 and $657,184 (U.S.) for United States income tax purposes, the related benefit of which has not been recognized in the financial statements. Unless sufficient taxable income is earned by the Company, the losses for Canadian income tax purposes expire as follows:

1990	$ 43,909
1991	381,139
1992	10,401
1993	2,119
1995	32,687

The losses for United States income tax purposes will expire in 2004.

11. SUBSEQUENT EVENTS

In August 1988 the Company obtained an additional bank loan in the amount of $65,000 to finance the acquisition of production property and capital expenditures. The Bank Debenture referred to in Note 7 was increased to $1,000,000 as security on the loans.

On June 1, 1988 the Company issued $92,500 of 8% cumulative redeemable, retractable, convertible First Preferred Shares Series #3 to acquire an interest in specific petroleum and natural gas properties.

12. CONTINGENCY

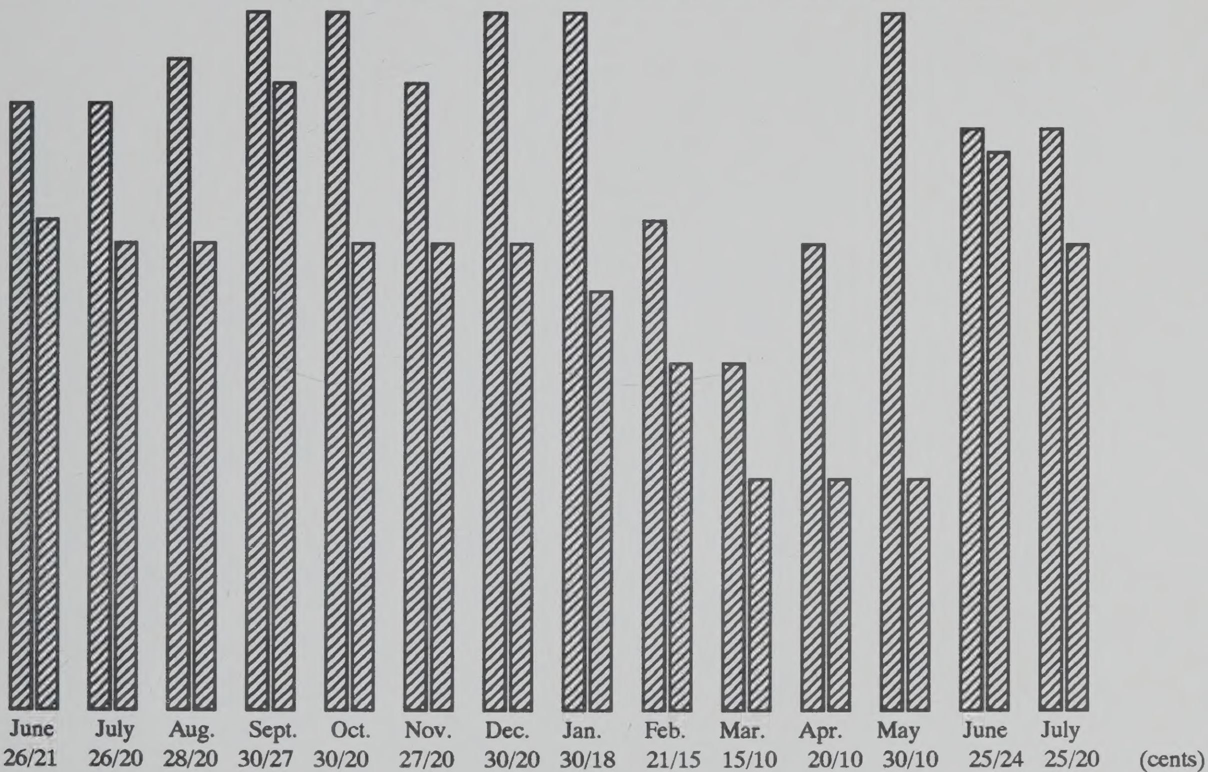
Statements of claim in the amount of $143,122 have been filed against the Company. It is the opinion of the Company's legal counsel that this action will not result in any adverse material effect in the financial affairs of the Company; therefore, no potential liability has been recorded in these financial statements.

A statement of claim in the amount of $127,130 has been filed against the Company. A counterclaim has been filed in the amount of $336,440. It is the opinion of the Company's in-house legal counsel that this action will not result in any adverse material effect in the financial affairs of the Company, therefore no potential liability has been recorded in these financial statements.

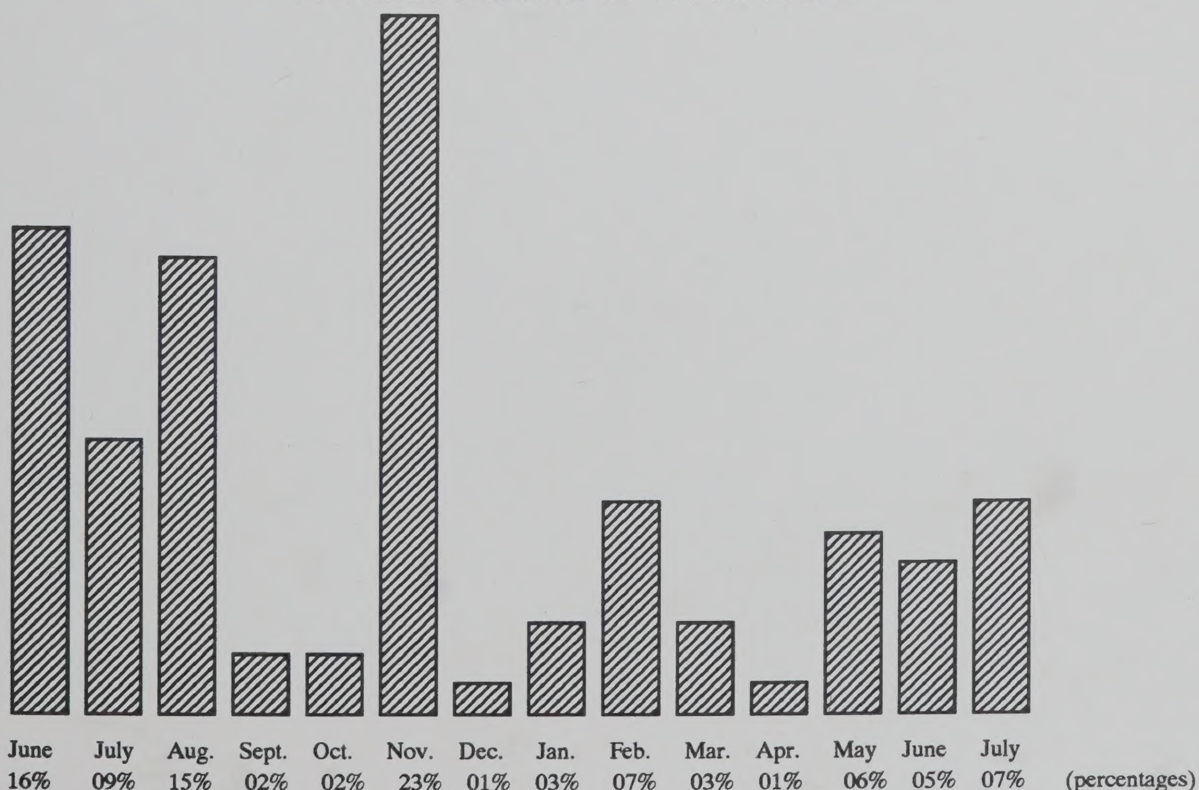
13. SEGMENTED INFORMATION

The Company's operations are conducted in Canada and the United States through three industry segments - the sale of oil and gas leases, mineral exploration and oil and gas production. During the current year the Company operated only in oil and gas production. Substantially, all of the Company's activities during the year were in Canada.

MONTHLY HIGH-MONTHLY LOW OF STOCKS TRADED



MONTHLY VOLUME OF STOCK TRADED



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